GOLD AND SILVER IN SANTO DOMINGO.

I.

In the summer of 1893 the President of Santo Domingo urged upon friends interested in the finances of that state the necessity of speedy action to aid in escaping the disasters due to the fall in the price of silver. The fluctuations of foreign exchange, and the excessive reductions in the revenues of the state consequent upon the depreciation of the standard, were the matters then most prominently at issue. The action of India in closing its mints, and of the United States in repealing the Sherman Act no doubt had an influence upon the situation, but mainly through the resulting distress produced by the continuing depreciation of silver. At this time overtures were made to the writer to frame a monetary scheme which would relieve the country from its difficulties; and, of course, the study of the situation demanded a visit to the country and an adaptation of the scheme to existing conditions. It was finally decided that the journey should be made early in the year 1894. This plan was carried out in the months of February and March of that year. The scheme, as finally agreed upon, passed the Dominican Congress, and became a law April 28, 1894. In answer to several requests it has been thought fit to print the law as passed[1] *verbatim*, with the proper explanations, as materials for the study of monetary questions.

II.

The Government of Santo Domingo should be clearly distinguished from that of Haiti, which is on the same island. The Country of Toussaint l'Ouverture, the large island next east of Cuba, separated by the Mona Passage on the east from Porto Rico; it possesses an unequaled soil, and a vegetation and climate

[1] A brief and popular exposition of the law was given in the *Atlantic Monthly* for July, 1894, from which short extracts may be found in the present paper. For the text of the law, as translated from the Spanish in the Official Gazette, see Appendix II.

of sub-tropical regions tempered, however, by the surrounding ocean. The western third—roughly speaking—occupied by the Haitians is practically separated by natural geographical boundaries from the Republic of Santo Domingo, which extends over the eastern two-thirds.[1] The "Black Republic" of Haiti stands quite by itself, and no love is lost between it and the Dominican Republic, and, if we except the desultory smuggling over the mountain boundaries, the only ordinary means of communication between the two countries is by sea. It will be clear, therefore, in this matter, that we have no concern whatever with Haiti. Its people and its currency are *sui generis*.

The color line in Haiti is drawn against the white man; in Santo Domingo it practically does not exist. A population of about 400,000,[2] amalgamated of Spanish, Indian, and negro blood, possesses the characteristics of all. Energy, persistence, and punctuality are, of course, not superabounding; but the people, while naive and hospitable, are intelligent. Anglo-Saxon habits of trade and commerce would sometimes be shocked. Yet a general and wide-spread respect for pecuniary obligations exists.[3] While it is often inferred from the mid-day closing of shops that the people are indolent, yet the richest merchant on the island is to be found in his counting-house at five o'clock in the morning, and will be found there as late as others.

French and Spanish lines of steamships regularly call at Dominican ports; but the principal commerce of the country is carried on with the United States, transported by an American line of steamers, used chiefly for freight. Most articles of daily comsumption are imported, the island not engaging in manufactures to speak of. Of course, coffee, cacao, sugar, tobacco, fruits, vegetables, honey, fowls, goat's meat, charcoal, pigs, and the like are produced at home. On the banks of the Ozama one

[1] 18,045 square miles.

[2] The statements in the *Handbook of Santo Domingo* (Bureau of American Republics) are to be taken with much allowance.

[3] I was credibly informed that the *pagarés*, by which the importers pay customs duties and thus secure credit for a few months, have in no instance been defaulted at maturity.

may, any afternoon, see the natives paddling down in canoes, loaded with these products, in the same manner in which goods have been transported for three or four centuries past. A great valley, the *Cibao*, runs through the Dominican country from Samana Bay at the east to Monte Christi at the northwest,[1] with fine mountain chains on the north and south, enclosing a splendidly fertile region, or Vega Real, planted with cacao, bananas, plantains, and royal palms in the eastern half. North of the Cibao is a slender strip of land between the mountains and the Atlantic, holding the only northern port, Puerto Plata, at the base of a mountain 2,700 feet high. A great quantity of goods, heavy and light, are carried mule-back from Puerto Plata over unspeakable roads winding over the mountains to Santiago, the principal city of the Cibao, of about 16,000 inhabitants. It is no mean achievement to get a piano, or a steam-boiler, to Santiago. South of the Cibao runs the highest mountain chain, which leaves between it and the Caribbean a very fertile plain, in which are the principal sugar plantations, and the capitol, Santo Domingo City, at the mouth of the Ozama river. East of the Ozama, which is embowered in luxuriant sub-tropical vegetation, there is, about Macoris, the land best adapted for sugar-growing. Here are to be found great estates,[2] containing many thousands of acres, with the most approved modern machinery, and each employing in many cases 500 to 800 laborers. The sugar industry is the animating one of the country. In this region of the south and in the capitol are to be found a large laboring population; while in the Cibao the Spanish blood, still more or less intact, makes the aristocracy of the country.

[1] From Cape Engaño at the east to the Haytian frontier is about 260 miles. At its greatest breadth the island is 165 miles. The Cibao is about 140 miles long and 14 wide.

[2] There are said to be 21 sugar estates, valued at $11,800,000, spending annually $1,600,000. The exports are reported as follows:

Year.	Quintals (of 112 lbs.)
1881,	144,604
1889,	450,825
1891,	324,656

But these figures are not to be wholly relied upon.

In the Cibao and at the north is found the principal tobacco cultivation, the trade in which centers largely in one house at Puerto Plata. The quality is not equal to that of Cuba, and is mostly sent to Germany and used for covers.[1] The eastern portion of the Cibao is finely adapted for the growth of the cacao and coffee. The cacao tree bears in five or six years after planting; and full-grown trees have been known to bear as many as 250 mazourkas,—the mazourka being the fleshy pod containing the beans—although the average is only about 55. The cacao[2] is marketed chiefly at Havre or Hamburg, and in these days of increasing chocolate-drinking finds a ready sale.

Some years ago Scotch capitalists built a railway from Sanchez, on Samana Bay, at the east, into the Cibao as far as La Vega, or about 62 miles. And more recently a Dutch company began to build another from Puerto Plata southward to Santiago over the mountains; but after building 13 miles inland to Bajabonico, the attempt was abandoned. At the present writing, the San Domingo Improvement Company, of New York, has undertaken the completion of this railway from Bajabonico to Santiago, and probably also from Santiago to Mocha. The railways are owned by the Government, bonded as they are built to a moderate extent, and operated by the builders under a contract.

Telegraph lines connect the various cities of the country; and by cable to Curacao, and thence to La Guayra in Venezuela, or by cable from the Mole St. Nicholas to Santiago de Cuba, they connect with the outside world. Telegraphic communication, therefore, exists with the markets of America and Europe. The Clyde line of steamers give regular local passenger transportation from port to port, beginning at Monte Christi on the northwest and touching successively at Puerto Plata, Samana, Sanchez, Macoris, Santo Domingo City, and Azua; repeating the route on the return trip to New York. Inland transportation—except by the Sanchez railway—is accomplished wholly on horseback. No carriage or wagon roads exist. In some regions, of course, about

[1] In 1891, 68,077 quintals were exported.

[2] Exports in 1891 were 13,218 quintals.

sugar estates or in the places about Monte Christi, at the mouth of the Yaqui river, in carrying logwood, rough bull-carts are used. To be sure, a badly abraded horseman might find a solitary dog-cart in Santiago to carry him over dubious roads, but the foot-hills would give him pause.

III.

After this brief conspectus of the general conditions of the country, which gives the background for our experiment, a brief statement may be given of the financial and monetary situation leading up to the new legislation of 1894.

About the time of the American civil war, the Dominicans, in a last struggle with Spain, completely established their independence.[1] The constant petty warfare with the Haytians also soon came to an end. The republican form of government gave play for a struggle of brains and leadership, in which the strongest man generally won. For several terms the present President, General Ulisses Heureaux, has been re-elected. Although governing with a firm hand, under his rule telegraphs and railways have been introduced, and incipient revolutions are thereby more easily discovered and more quickly crushed. Today any stranger can ride the length and breadth of the land in perfect safety.

When in the country in 1888, the public finances were said then to be in a condition which was far from satisfying the requirements of budgetary science. At that time, the customs revenues were collected by a Dutch company under a contract with the state. Since that time the revenues seem to have decreased. Early in 1893, the public debt was consolidated, and a new contract[2] made with an American company, known as the San Domingo Improvement Company, of New York, by which the custom houses were to be transferred to their charge. Under the new régime, inefficiency and possible corruption have been reduced to a minimum, and the revenues have begun to increase. This means, of course, that there is more or less income to spend on railways, interest, redemption of the public debt, and the like.

[1] July 11, 1865.

[2] Dated January 28, 1893, and ratified by the Dominican Congress March 24, 1893.

The duties on imports, being about 40 per centum, were payable in current silver coin. For years the Mexican silver dollars were the only coins in circulation. On July 16, 1890, a law was passed by which a new Dominican coinage was established, under a concession to a French institution, known as the Banco Nacional de Santo Domingo, 15 Place Vendome, Paris. This concession granted it the right to coin money; and in the performance of this right a coinage law had been passed, creating a monetary system of silver in exact imitation of the French, with denominations of five-franc pieces, one-franc, and half-franc pieces. These coins were exact counterparts of existing French coins, of the same weight and fineness; but they bore the devices and ensignia of the Dominican Government. The five-franc piece was expected to circulate on the same terms as the Mexican dollar. In all, 950,000 francs of this coinage were put into circulation. It was soon evident that this plan would not be successful. The strongest legislation was provided to enforce the use of francs as the money of account, but to no avail. No great amount ever entered into circulation; and the *dernier ressort* was again the Mexican dollar. There was no profit to speak of in this issue; and the single silver standard, even if it carried the country's escutcheon, was no more valuable or stable than silver in any other form. In 1894, these coins seemed to have disappeared from common circulation, although it was possible to get sets of them from the bankers.

The Dominican people had, then, simply a single standard of silver. With it, their trade and commerce had suffered so severely that it was the burning question of the day how to remedy the difficulties. Every man on the island had had the matter come home to him. It was the talk of the day. And we may now consider what the difficulties due to the silver standard under which they were laboring were.

(1) The first and most obvious complaint was that the exchanges fluctuated so as to demoralize trade. Exchange in Santo Domingo is generally quoted on New York, the quotation there being in the figures which indicate the number of Mexican

silver dollars needed to buy one hundred American gold dollars. If the exchange was quoted at 160, or 185, or 208, it meant that 160, or 185, or 208 Mexican dollars, respectively, were the equivalents at the banks for 100 dollars of American gold. Consequently, Dominican exchange on New York fluctuated to correspond with the changes in the price of Mexican silver dollars in the New York market. Mexican silver dollars, however, outside of Mexico are only coined ingots; that is, they are only forms of silver bullion, of convenient size and of defined weight and fineness. Outside of Mexico they are coins only in name, but in reality bullion. They are bought and sold on the basis of the pure silver contained in them; and, with certain exceptions, the demand for them differs little from the demand for silver bullion, their value being determined in the same way as that of silver bullion. Some slight exception is to be made to this statement, owing not merely to the fact that the cost of mintage gives the coin a value above the bullion in it, but also to the fact that in this form this particular coin has been by usage preferred in the Orient and in parts of America to other forms of silver. The market value of the Mexican silver dollar, therefore, may vary slightly from its bullion value, because of a greater or less trade demand in other and often distant countries. Too much emphasis, however, should not be put on this point; for, in the main, the value of the dollar corresponds very closely to its bullion value.

The perturbations of trade arising from fluctuations in exchange have always excited undue apprehension, because, being clearly apparent, and observed by all, they make a great impression on the mind. Superficial phenomena though they be, to those who cannot see deeper they appear to be of a fundamental character. It is true, however, that fluctuations in the exchanges produce evils among a population unaccustomed to banking methods for the reason that through banks the evils are avoided, and ignorance of banks is an ignorance of necessary remedies. An importer into or exporter from Santo Domingo can always buy or sell gold exchange immediately on the comple-

tion of the transaction, so as to wholly protect himself.[1] But they have not always used the means at their disposal. And machinery which seems difficult of use may remain unused by a slow-moving people, and the same results may ensue for the time being as if the machinery were non-existent. So even though banks would afford protection against fluctuations of exchange, such a people would still regard the fluctuations as a great evil.

The situation in this respect was curiously like that in India. Indeed in many of the reports on Indian currency one need only substitute the words "Mexican dollar" for "rupee" to get a clear statement of Dominican conditions. Santo Domingo, to be sure, is only five or six days from the New York market; it has no dominating central government at a distance to which it must remit and which is the creator of bills drawn on the dependent country; and its business and population are far less than that of India. But the monetary conditions are almost exactly the same. Both countries had long had a single silver standard only, and both have been thoroughly excited and disturbed by the same cause,—the fall in the value of silver. In India, however, there is a larger body of merchants keenly alive to international movements of trade and exchange than in the Spanish-American Republic. Apart from a few leading merchants and planters in Santo Domingo, few would be conversant with the somewhat intricate operations of the exchanges and the consequent effect on prices. The result was that these merchants dominated trade and prices to a great extent, irrespective of what was going on in the outside world This, however, could not be permanent. Such domination might, at the best, only delay the inevitable.

[1] An exporter of goods to Santo Domingo could protect himself by the following method mentioned by Ellstaetter, *Indiens Silberwährung*, p. 25: "Should a Manchester cotton spinner, for example, accept an order in January, 1892, for cotton-yarn to be delivered at Bombay, payable on July first in rupees, he would be entirely protected against any influence arising from fluctuations in the rate of exchange, if he should sell a corresponding amount of bar silver for the end of June, 1892, in blanco at the quotation of the day on the London Exchange. If the rate of exchange falls below this, he loses on his goods-contract, although he gains by the speculation in the fall of silver; if the rate of exchange rises, then he loses on silver, but he gets a profit on the delivery of the goods."

In Santo Domingo, however, as in India, the shrewder merchants easily used the little arithmetic needed to convert a sum of silver due them into an equivalent value in gold in which the foreign payment must be made. Of them it is truly to be said as of the Indian exporters and importers: "In the computation, the cost of insurance against loss by the fluctuations of the exchanges is as exactly worked out as the cost of marine insurance".[1] In Santo Domingo, as in India, what really disturbed trade was the uncertainty produced by the fluctuations. The real difficulty lay not in the exchanges, but in what lay behind the exchanges.

One may apply entirely to Santo Domingo the conclusion of the Indian Currency Committee[2] on the question of fluctuations of the exchange:

> It is said that legitimate trade is replaced by mere speculation and gambling. . . . . It does not appear to be certain, even in the view of those who are most strongly sensible of the mischievous effect of fluctuations of exchange, that the volume of trade over a series of years has been diminished from this cause, though there seems a common agreement that any sudden or violent fluctuation almost paralyzes business for a time. It is to be observed that it is not so much the fall of exchange [in Santo Domingo it would be a rise of exchange] which is complained of, as the fluctuations, whether in one direction or the other. . . . . It must be remembered that, before the fall in the price of silver began, and the fluctuations in the rate of exchange depended upon it, the rates of exchange varied very considerably during particular years, though, no doubt, the fluctuations have been much more frequent and considerable since that time.
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> Upon the whole, it cannot be doubted that it would be well if commerce were free from the inconveniences of fluctuations which arise from a change in the relation between the standard of value in India and in countries with which her commerce is transacted. It must not be assumed that the adoption of the same standard for the

[1] KARL ELLSTAETTER, *Indiens Silberwährung*, p. 25.

[2] *Report of the Committee appointed to inquire into the Indian Currency*, 1893, §§ 25, 26.

United Kingdom and India would remove all the disquieting causes of the disturbance of trade of which complaint is made. If the commodity which lies behind the exchange transaction is one that continues to fall in relation to gold, the risk which arises from bargains in a falling market will still be present.

The producers of coffee, tobacco, sugar, and cacao were in a peculiar position; but they form the class who produce almost the only articles of export. The sugar and cacao planters, too, are now almost all foreigners. The sugar plantations on the Caribbean are large, equipped with the latest machinery, and managed with great skill. Their sugar is sold almost entirely to the United States, being sent either by the Clyde Line, or by sailing vessels. For their product, therefore, they draw on a gold-using country; and to the extent to which they purchase American supplies they buy in a gold-using country. In a measure, therefore, they have escaped the effects of fluctuations in silver. But their hundreds of Dominican laborers are paid in silver, as are also all their dues to the State.[1] Here the silver question affected them seriously; or, rather, with the steady fall in silver they had been steadily getting their labor cheaper in comparison with the metal (gold) in which they sold their product. A change therefore from silver to gold meant for them a readjustment, and a return more or less to former conditions. If they could no longer pay their laborers in Mexican dollars costing them only 50 cents in gold, and if they must provide silver currency at 100 cents in gold, it was a serious matter. On the face of things, it meant to them an increase of 100 per centum in wages. But a slow and uniform fall in silver did not hurt them. They suffered, as well as others who drew bills, from uncertainty in the rates of exchange. A planter, drawing a bill on New York against a cargo of sugar, could sell that bill in Santo Domingo for the Mexican silver with which to pay his laborers. But if, as happened in the winter of 1893-4, Mexican dollars fell in a period of two months from 56 cents to 48 cents

[1] They have no property tax, but contribute to the state only by export duties on raw sugar, by port dues, or by *octroi* duties on carts passing through the city.

in New York, such a bill would have become of fluctuating value; and on a gold bill of 10,000 dollars, it would have made a difference of about 3,000 Mexican dollars. By waiting two months the bill would buy 3,000 more Mexican dollars. Obviously, the sugar planter would in such times hesitate to sell bills for silver; and yet he might need money for his pay-rolls. Hence a falling price of silver tended to make bills on New York scarce and high in Santo Domingo. The reverse would also be true. If silver rose, or if the gold standard were to be introduced, there was nothing to be gained by holding back bills. But, to a certain extent, the planter was in practice always betting whether silver would rise or fall, when drawing bills.

The sugar planters would be affected in another way by the proposed gold standard. There is an export duty on raw sugar, and several port charges, which fall, of course, on the planter. If the same revenue rates were exacted in gold as were formerly paid in silver, it would amount to doubling the duties. Naturally, they opposed this increase of payments to the Government under the cloak of a change to an improved standard of payment. A compromise, however, was effected by reducing somewhat the rate of duty when paid in gold.

What was true of the sugar-planter was, in the main, true of the coffee and cacao producer. The cacao is marketed in Havre, or Hamburg, and the grower can draw at thirty days sight, and of course in gold. Of these large producers, therefore, as employers of labor it may be said that they gained what their laborers lost by the steady fall in price of silver. They sold for gold, and paid in silver. There never was a clearer illustration of well-known monetary laws than in this phenomenon. With a falling, or depreciating standard, employers of labor gain and laborers lose; with a rising, or appreciating standard, employers lose and laborers gain. I shall return to this later, after speaking of prices.

(2) The second, and most obvious difficulty encountered from the depreciating standard was that met with by the Government. It was exactly the same difficulty encountered by India.

Customs revenues collected in Mexican dollars diminished exactly as silver fell in value; that is, they fell relatively to their gold-bearing obligations in other countries, and in regard to all purchases in gold-using countries. It was not a question whether gold had or had not appreciated. The revenues were a fluctuating quantity as compared with the articles to be purchased. As sugar planters gained by a fall in silver, in which they paid their export dues, in comparison with the gold for which their products were sold, the Government lost. And in order to make payments, or to meet the interest on public debts, held abroad, the revenues constantly became less and less sufficient. As silver fell, the revenues shrank. The only resource was to raise the percentage of import duties, a measure which would naturally be unpopular. All these conditions were particularly severe to a Government, whether frugal or extravagant.

The adoption of a gold standard, therefore, would have the effect of increasing the duties, if the old silver rates were retained. It would still be a means of increasing the revenues, even though the rates of duties were lowered in percentages. The Government, therefore, would have many reasons for favoring the adoption of a new standard; and for trying to escape from the evils of a depreciating silver standard. The credit of the country, the value of the bonds, the means to build railways, the improvement of harbors and rivers, the increase of military and naval protection, the building of forts, the carrying on of internal improvements,—all these were concerned in the question of gold and silver. And all the varied interests, political and financial, which were necessarily connected therewith, must be considered. As a rule, these would find only disadvantage in a fluctuating, or depreciating, standard. In the end, they must all work for reform,—if the friction so often present in details could be avoided.

(3) To the economist, probably the relation of the silver standard to prices must present the most interest. It has so often been contended that silver has not fallen as compared with commodities, but that since 1873 both commodities and silver

have moved together away from gold; that it is gold which has advanced in value from causes affecting itself, while commodities and silver have remained at the old ratios. It is not my purpose to argue this point here; but to state the actual facts found in Santo Domingo which bear upon the acceptance of the above theory. If silver prices did not change, or fell, then perhaps the change was in gold; but, if silver prices rose, and gold prices remained unchanged, then it was evidently silver which had fallen, and fallen, too, relatively to goods.

In countries like India and Santo Domingo it is to be noted that general readjustments of prices are made slowly. In Santo Domingo inertia went so far for a time in preventing changes in prices that bankruptcy was quite general. Torpid habits of mind on such questions left large masses of people under the domination of a few aggressive merchants with a talent for leadership. Removed from quick means of communication with the outside world, matters easily went on for a time, unchanged by the external conditions. In regard to a staple product, largely controlled by one house, it is said that the same price in silver was steadily paid to producers, irrespective of outside changes in the value of silver, because the exporting house made itself whole in this case in the drawing of bills. Such temporary shifts, however, cannot exist in the face of open competition. In general, the operation going on in Santo Domingo was almost exactly that described by Nasse in regard to India,[1] as follows:

> The immediate consequence of a change in the relative values of the two metals, is a corresponding change in the value of (1) the money circulating in countries having a silver standard relatively to (2) that circulating in countries having a gold standard,—which is expressed in the rate of exchange. But if the standard of value of a country depreciates in comparison with that of other lands, only exported and imported articles will first be affected in their relative values by the change. The rising rates of foreign exchange must raise their prices. The relative prices of other goods, however, are not affected for a considerable time by the change in the value of the home, as compared

[1] Quoted by ELLSTAETTER, *Indiens Silberwährung*, p. 32.

with the foreign, circulating medium. The wages of labor, and a variety of conditions affecting the prices of articles of daily use are only gradually changed.

Under peculiar conditions, domestic prices in Santo Domingo for a time withstood the changes in the value of the standard in the outside world. But this could not continue indefinitely. The power which kept up prices for a time was a belief on the part of leading merchants that the outside change in the value of silver was only a passing phenomenon and that very soon silver would rise again. This was held on to, as has been said, until great distress arose. But finally, when the stress was too great to withstand, even the conservatism peculiar to the Spanish mind gave way, and prices rose with a bound, instead of rising gradually as they would have done in open competitive markets. Then followed a *sauve qui peut* in which the wealthy looked out for themselves and the ignorant lost.[1] I happened to arrive at Puerto Plata at the time (February and March, 1894,) when this rise of prices took place under great excitement. Within the previous twenty days the silver prices of all goods had advanced about thirty per centum.[2] And during my stay on the island, they continued to change. It thus appears that silver had changed and very decidedly not only in regard to gold but in regard to commodities. From this it would be absurd to infer that gold had appreciated.[3]

[1] "A Chinaman in Puerto Plata, ignorant of the rise of prices decided upon by the larger merchants, found, to his amazement and delight, that his stock of rice and other goods was selling remarkably well; indeed, his sales for the day had exceeded any previous record. Leaving his empty shelves, he went to an importer to replenish his stock. He then discovered that he could not buy new goods for anything like the price at which he had already sold. By this method of induction he learned to hate silver."

[2] This sudden, although delayed, movement in Santo Domingo is clearly contrasted with the constant comparison of silver with gold in Havana, where, in a large commercial city, there is ready and frequent intercourse with the outside world. The streets were studded with offices for exchanging gold into silver, the fluctuations between the two metals actually supporting a large class. In many shops, placards were displayed, giving daily quotations of American gold in Spanish silver.

[3] This, however, has been asserted on the strength of the stability of prices in China.—Cf. E. BENJ. ANDREWS, *Quarterly Journal of Economics*, June, 1894, p. 323.

The same results seem to have appeared in India, according to the information given by the Indian Currency Commission. When Nasse wrote in 1886, there had been no serious change of prices. But from the tables of prices of Mr. O'Conor, articles imported from Great Britain fell in price in India, but not as low as they fell at home; that is, the prices in India were buoyed up by the decline in the purchasing power of the rupee. For example, Mule Twist, No. 40, Fair, 2d Quality, had fallen, from March 1, 1873, to January, 1892, 46.67 per centum as reckoned in gold in London. In India this imported article, reckoned in silver, had fallen only 36 per centum; as reckoned in gold in Calcutta the price had fallen 54 per centum.[1]

As regards the articles produced and sold in India, expressed in silver, it is clear that they have distinctly risen. Comparing 1861–1865 with 1891, rice rose from 103 to 149; wheat from 103 to 135; jawar from 122 to 138; bajra from 120 to 137; ragi fell from 149 to 138; grain rose from 88 to 129; barley from 80 to 131. The Indian Government,[2] on October 5, 1892, said: "In the case of wheat and rice, the only two grains of which the exports bear a material proportion to the local consumption, the wholesale prices will be largely determined by the gold prices in Europe and the rate of exchange for the time being. As regards the retail prices of food-grains, it is worthy of notice that there have been loud and persistent complaints, during the last three or four years of the high range of prices of the articles of food which are in common use by the people at large." There is still more evidence which need not here be given to show that the purchasing power of the rupee in India has declined. This may be taken as conclusive, now that the recent tables of prices by Mr. O'Conor have been published.

In Santo Domingo, the sugar, coffee, tobacco, and cacao,—the main exports,—like wheat and rice in India, have their prices fixed in the European and American markets to which they are shipped, and do not depend on silver quotations. So

[1] Cited by ELLSTAETTER, *Indiens Silberwährung*, p. 36.

[2] *Minutes of Evidence, Indian Currency Commission*, p, 161.

long as their cost of production at home was paid for in the same number of Mexican dollars—which was long the case—they could export with increasing facility as silver depreciated. But in regard to commodities in general, in Santo Domingo as in India, the fall in the value of silver resulted in a compensating rise of prices, and a diminution in the purchasing power of the Mexican dollar, as well as of the rupee.

(4) The laborers were the class who in the end suffered most. Santo Domingo, with its slowness in adapting itself to changed conditions, was precisely the country in which wages would lag behind the movement of prices. As in our Civil War, when the "greenbacks" depreciated and prices rose, wages did not immediately follow. It is the old fact, in a new form—that wages-receivers suffer from a depreciating currency. Wages are slow to rise and quick to fall; and in Santo Domingo there was another illustration of the truth of this familiar proposition.

The laborer was ignorant, unfamiliar with monetary operations, and the recipient of wages customarily fixed at 60 or 75 cents in Mexican coin, and rarely at a dollar. Six years ago in Azua wages were 50 cents a day in Mexican silver; and there is ground for believing that wages have risen since then. But with existing wages, their purchasing power had diminished as prices rose. The laborers are most numerous on the southern side, among the sugar plantations and in Santo Domingo. They are not efficient, nor careful, nor steady. But nothing amazed me more than the nearly universal belief of the laborers everywhere that silver was unsteady and undesirable as a means of payment. They had found out by experience that their silver wages were losing in purchasing power. The great democratic feeling of equality may account for this,—since what was known to one was passed on to everyone else. The laboring classes were a unit in wishing a gold medium of payments.

The reason for this was not far to seek. How was the laborer, now receiving the customary 60 or 75 cents, to be affected by a change to a gold standard? The question evi-

dently is, how much of the new medium will he receive? The gold medium would buy twice as much as the one of silver. It would be difficult to persuade the laborer to take any less number of cents in gold than he formerly received in silver. It is evident that the laborer starts out with the initial advantage in any change to a better standard. The presumption is that he will ask for the same number of cents for his daily wages; and even though 30 or 40 cents in gold might buy as much as the old wages it was hardly likely that the daily stipend could be reduced from 60 or 75 cents to that low rate. Labor is not easy to obtain; hence workingmen can demand and secure a very considerable advance in wages. Whether the general mass of people fully understood this or not, I, of course, cannot say, but it was very certain that they earnestly favored the gold standard. The very same reasons also were clearly those which underlie the opposition of the sugar planters and large employers of labor to the proposed reform.

(5) The class who actually suffered heavily, but were in a position to protect themselves, were the merchants, or dealers in imported goods of general consumption. "Merchants, for example, importing cotton goods from gold-using countries on credit, were under obligations to pay in gold on settling accounts at the end of the period of credit. In Santo Domingo the mporters sell to small dealers, who distribute goods directly to oonsumers. These small dealers sell on credit, often for as long as nine months, and they pay the importers in silver. Clearly, when silver was paid in nine months after purchase of goods, the loss from the lessened value of silver fell upon the merchants who were obliged to settle accounts in gold. Many articles are imported, and as the class of those engaged in distributing goods is very large, compared with producers, the distress was widespread; and in the minds of all it was clearly associated with its real cause, the fall of silver. The goods did not change in prices relatively to gold; silver changed relatively to the goods as well as to gold, as everyone knew."

IV.

From the preceding exposition of the conditions existing in Santo Domingo affecting the monetary and financial situation it may be better seen what the legislator had to deal with. There were, of course, many difficulties to be overcome and many pitfalls to avoid. In regard to the fluctuation of exchanges, as was fully explained, there was no vital or insurmountable obstacle to trade; but steadiness in the exchanges would give confidence and ease to business. Changing prices due to a fluctuating standard were a real evil, to be prevented by all possible means. The revenues must be maintained, and laborers protected from rising prices. The forces then to be counted on for reform were: the government and financial interests; the laboring classes; and the traders who distributed to consumers. On the other side would probably be found those dealers in bills who profited by the high rates of exchange due to fluctuations; those affected by higher rates of duties; and the sugar planters. Thus the government and the great mass of the people were urgent for reform as against a lesser number of bankers and larger producers.

It is evident that a monetary scheme was inevitably bound up with large financial and fiscal questions and with the general business of the country. The new system must be carefully adapted to existing monetary habits. The Mexican dollar had long been the money of account, and must be reckoned with. The failure of the recent franc-system of coinage to meet the situation was ominous for any too great departure from monetary habits. In a country in which the greater number of transactions were in small sums, it was necessary that silver should be provided for general use; and yet it was imperative that this silver should be maintained at par with the gold currencies of countries with which they traded. The new scheme, in short, must meet the following demands in order to secure enactment: "It must furnish a stable part of exchange; it must not violate the monetary habits of the people; it must provide silver as the money in general use; it must protect the silver money from all

fluctuations of the metal; and yet it must, in addition, provide a profit for the government."

To meet these requirements the scheme was drawn up as embodied in the law, which is annexed,[1] and which was actually passed, April 28, 1894. The provisions of the law explain themselves; but it may be well to call attention to a few principal features in it.

(1) The monetary unit adopted agreed with the prepossessions of the people. The *peso*, or dollar, being their customary coin, the desire was natural to obtain, so far as possible, uniformity with the coinage system of the United States, with which the largest trade was carried on. There being the friendliest confidence in the United States, the proposal to adopt coins of the same weight and size as ours met with general approval. This was carried out so far as regards the gold coins; and the legal and monetary unit of the Dominican Republic was declared to be the gold dollar of 23.22 grains pure gold.[2] But only twenty-dollar, ten-dollar, and five-dollar gold pieces were to be coined.

The field of circulation for all denominations below five dollars was left free for the silver coins. A necessity for the existence of a subsidiary circulation of silver was created. This implied not only the wish to keep out the largest possible amount of silver able to circulate in retail and general transactions among the people, but the certainty of a greater gain to the Government. In the vacuum thus created the one dollar silver piece was to play the principal rôle, yet only as a token coin. For many reasons of local policy it was decided to make the new Dominican silver dollar heavier than any current silver dollar by fixing the amount of pure silver in it at 380 grains. In its intrinsic value[3] it was to be worth more than any of its

[1] See Appendix II.

[2] See Chap. I., Art. 3.

[3]

United States Dollar, - - - - - -	371.25	grains.
Japanese Yen, - - - - -	374. 4	"
Mexican Dollar, - - - - - - -	377. 4	"
Old United States Trade Dollar, - - -	378.	"
New Dominican Dollar, - - - - - -	380.	"

brother dollars. As regards smaller coins, inasmuch as the silver dollar piece was a token coin, there was no reason for making any distinction between the proportional weights of any of the subsidiary coins;[1] so that halves, quarters, and dimes were made proportional parts of 380 grains.

(2) First and foremost, however, was the provision to keep the silver currency at par in gold by a system of redemption.[2] It will be noted that 380 grains was chosen as the silver dollar for local reasons, and that 23.22 grains was adopted as the gold dollar for commercial reasons; while, in this, there was no attempt whatever made to first determine upon what ratio between gold and silver it would be safe to base a coinage. Hamilton tried that method and failed. Under a system of redemption all the silver needed for circulation could be maintained in use, and the difficulties as to the ratio would vanish. This is the characteristic part of the scheme. The long past history of paper money was drawn upon for the means to secure the circulation of silver at par with gold. The Dominican silver dollar was heavier than any other; but its intrinsic value was about one-half of the 23.22 grains of gold in the gold dollar. In general, the value of a promise to pay depends upon the keeping of the promise. Convertible paper is always at par. Why not have convertible silver? A paper money with an inalienable 50 per centum collateral would, on dissolution, be worth fifty cents on the dollar; but there is no difference, except in degree, between keeping at par this kind of paper and a kind which has no

[1] The United States silver dollar contains 371.25 grains of pure silver; but two halves, or four quarters, contain only 345.6 grains of pure silver. This difference was made in 1853 in order to put subsidiary silver so far beneath the ups and downs of the gold and silver dollars that the changes which had alternately driven either gold or silver coins out of circulation would not touch the subsidiary coins. The Act of 1853 was, therefore, practically an act to establish a subsidiary silver coinage; and it left the old silver dollar, long out of use, to take care of itself. At the present day the conditions of 1853 are obsolete; there is no reason for their existence. Under a system of redemption it makes no difference, so far as concerns circulation at par, whether the subsidiary coins correspond with the dollar piece or not. The amount of silver in them is then important only as it affects the suppression of counterfeiting.

[2] See Chap. III., Arts. 14–19.

collateral but the promise. In either case a reserve sufficient to redeem any note on demand serves the purpose. This also fits the case of silver with an intrinsic value of only 50 cents on the dollar. It can be kept at par with gold only by ensuring its convertibility into gold. It follows from this that the actual number of grains in a dollar was unimportant.

This method of dealing with silver, moreover, has the merit of demanding of a country only that which is within its power. It cannot redeem all the world's silver; but each country does its own part in redeeming all that can stay in circulation within its limits. And that is all that monetary science asks of any system. Free coinage of silver would here be an absurdity. It would be somewhat like the printing of unlimited paper; it would destroy the convertibility by which its value is maintained. We do not recognize that legislation has any duty whatever "to keep up the value of silver" or of any other commodity; but even from this point of view a country which by redemption maintains all the silver it can use at twice its value is doing more real service to the value of silver than it could by any agreements upon ratios. Consequently, the Dominican law restricted the amount of silver in circulation to sums decreed by the Government.[1] We have here, then, the two necessary conditions for a stable convertible currency: (1) redemption, and (2) limitation of quantity.

The action of India, June 26, 1893, in closing its mints to the free coinage of silver was a necessary measure; but it is only a half step. The aim in India is to maintain its own silver coins—not all silver—at a stable par in gold. It has taken the first step towards limiting its quantity. The next step is inevitable—it must eventually adopt a system of redemption of its own rupees. In no other way has a depreciated currency ever been maintained at par. In the Santo Domingo scheme this was frankly recognized; and it is interesting to note that two members of the Indian Currency Committee (*Report*, p. 42), Messrs. T. H. Farrer and R. E. Welby, strongly recommended

[1] See Chap. III., Art. 13.

this measure for India. In my judgment, India must in the end come to this.

The quantity in circulation, it was hoped, would be determined automatically. On the one hand, by giving to the Government the sole right to coin silver, there exists the inducement to coin as much as possible, because of the very large profit of about 50 per centum—the seigniorage. But, on the other hand, this means of profit disappears, unless the system of redemption is maintained intact. An excessive issue of silver would come back on the redeeming offices, and no excess beyond the needs of the circulation could stay out. There is thus a sure check on excessive issues of silver; because the self-interest of the Government is enlisted to maintain redemption, since only by maintaining redemption can any profits be reaped. "The supply of coins is provided by direct outlay of the Government; but the gain of the Government from the seigniorage is such as to stimulate it to put out all that will circulate. The more put in circulation, the more profit from seigniorage to the Government; and the Government will not be slow to use this opportunity. Every dollar of silver, costing to coin at the present price of silver about fifty cents, is paid out by the Government at its face value for one hundred cents in gold. This profit of one-half on the whole of its silver coinage, however, is dependent entirely on the maintenance of redemption in gold. If silver coins are not kept at par in gold then their value falls, and the profit on seigniorage *pro tanto* vanishes. This explains why it is for the interest of the Government to keep the redemption system intact. On every million dollars of silver coins issued it gains a profit of half a million dollars. The only deduction from this gain is the interest on the reserve fund of gold required to be kept on hand for redemption purposes; but this reserve need never be large, unless there is an attempt to issue silver beyond the amounts needed for circulation." In general, beyond the early tests made solely to establish a common belief in redemption, the probable demands will be somewhat in proportion to the savings of the community; for savings will usually be converted into

gold before being buried or hidden. And, of course, if imports for a time much exceeded exports, gold would move outward. But exports usually exceed imports.[1] With an increased production, however, and a consequently greater purchasing power of the country, gold would have an increased tendency to move towards Santo Domingo. Prosperity will support the system. The building of railways and all improvements will work to this same end.

A precautionary measure[2] against possible hostility to the system provides that gold exchange on New York may in an emergency be used in redemption. The occasion might arise when an enemy would present an enormous amount of silver at once at a branch office, in order to discredit the system. A resort to gold exchange, however, would be a most infrequent occurrence. It is allowed only because the island is not in immediate connection with the continent and the reservoirs of gold.

(3) When it is remembered, also, that persistence of monetary habits[3] is very determined, account must be taken of the Mexican dollar. It is, of course, the interest of the Government to discredit all foreign silver coins; for to the extent that they circulate they keep out Dominican silver coins and thereby diminish the profit of the Government. Working to the same purpose are the well developed associations of loss and injury connected with the Mexican dollar during the fall in the value of silver, and which are wide-spread. Without relying on this favorable sentiment, however, the plan provides a means[4] of driving the Mexican dollar out of circulation. By refusing to

[1] The statistics of exports and imports are not very trustworthy, but the figures for 1891 and 1892 are approximately correct:

Year.	Exports.	Imports.
1891, - - -	$2,926,039	$2,687,558
1892, - - -	3,035,660	2,011,735

[2] Chap. III., Art. 16, §.

[3] In the United States, for example, many people still reckon prices in "shillings" and the like denominations, some of which have not existed as coins for over a hundred years.

[4] Chap. III., Art. 13, §§§.

receive it in any payments except at a rate which makes the Mexican dollar worth more to export elsewhere, it will result that as the new silver comes in, the old will go out.

(4) Gold and silver coins were made an unlimited legal tender; since silver coins are convertible into gold. Existing indebtedness could meanwhile, until the new coinage was prepared, be settled in Mexican dollars at their market value in gold. All debts contracted before the first day of June, 1894, were to be paid in the money in which they were contracted. After that date, while contracts could be made in any money, in default of an express stipulation of course the national gold or silver coins would be the proper legal tender.

Other considerations entered into the law which were of no importance to the general scheme. There had been, for instance, a concession previously granted to a French company by which the Banco Nacional de Santo Domingo was established in the island; and this institution had been granted the right to coin all national money. When, however, recent conditions demanded a new coinage system, and the present scheme was decided upon, the Banco Nacional was, by virtue of its concession, given the choice of accepting or rejecting the functions created in the law for a Fiscal Agency which should see not only to the coinage but also to the redemption of the money. The provisions[1] regarding the Banco Nacional were introduced merely to provide for carrying out the system in case this institution was unwilling to undertake the task.

(5) "It might be asked, finally, how are the means to be found to furnish the new coinage? The first burden must fall, of course, on the revenues; but, as must have been seen, the sums taken from the revenues to pay for the coinage would be only in the nature of an advance. Since the new coinage system provided a profit to the Government, it could not be in any sense a burden upon the revenues. Not only did the country get relief from what was crushing trade, not only was exchange prevented from fluctuation, not only was the credit of the country and the

[1] Chap. III., Art. 14–19.

value of its bonds increased, but the Government gained a large profit on the seigniorage, while the country was enabled to go on quietly using silver in its retail transactions. The scheme is simple and compact. Its merits, whatever they are, arise from following correct monetary principles."

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